



**STATEMENT OF GEORGE LAMONT
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On behalf of

THE U.S. APPLE ASSOCIATION

Before the

**SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK
MANAGEMENT
Of the
HOUSE AGRICULTURE COMMITTEE**

April 26, 2006

Good morning, Mr. Chairman, distinguished members of the Subcommittee and guests. My name is George Lamont; I am a sixth generation apple grower and co-owner of Lamont Fruit Farm, Inc. in Albion, New York. Lamont Fruit Farm is a 400-acre orchard, with apples as the only crop. I am a member of the U.S. Apple Association's Risk Management Task Force, a past chair of the U.S. Apple Association, and a past President and Executive Director of the New York State Horticultural Society. I appreciate the opportunity to testify on apple crop insurance before the Committee on behalf of the U.S. Apple Association (USApple).

USApple is the national trade association representing 7,500 apple growers and all segments of the apple industry. Members include 36 state and regional apple associations representing growers across the country, as well as individual companies. USApple's mission is to provide the means for all industry segments to join in collective efforts to profitably produce and market apples and apple products. Total U.S. apple farm-gate revenue was over \$1.7 billion in 2005, according to the U.S. Department of Agriculture (USDA).

An improved apple crop insurance program has been one of the critical needs of U.S. apple growers. We are facing increased international competition, and at the same time have experienced more damaging weather patterns. From 1998 to 2002, Michigan, Western New York and Eastern New York suffered devastating storms that in the past would be considered to be 50-year storms. These storms put many growers out of business and threatened the financial stability of agricultural lenders as well. We desperately needed to find a way to hedge our weather risks.

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In November 2002, the USApple Risk Management Task Force was formed to work in partnership with USDA's Risk Management Agency (RMA) to improve the apple crop insurance policy. This Task Force, which still works on crop insurance issues, is comprised of growers, state association members, and insurance agent representatives with the goal of continuously improving the apple crop insurance policy. We met several times via conference call with RMA officials and provided a set of recommendations to RMA in the spring of 2004. The new policy went into effect for the 2005 season. We were able to work with RMA to achieve several improvements in the new policy. Among them were:

1. The basic grade was raised from U.S. cider to U.S. No. 1 Processing, while retaining an option for the grower to purchase coverage for fresh apples at the U.S. Fancy level.
2. All weather related perils were covered as opposed to only hail being covered in the previous policy

These changes were very important to the industry and we appreciate the willingness of RMA to work with the industry to make these needed improvements. However there are additional features that would make the policy more valuable to growers. These would encourage growers to make use of the policy and we would like to enlist your support in encouraging RMA to add these features.

1. **The ability to create additional parcels.** Because weather events such as hail typically affect small areas, it is very difficult to qualify for legitimate weather related losses on larger blocks because seldom will an entire block be hit. If a 25-acre block is hit completely by a disastrous weather event, the grower can collect an insurance payment. But, if 25 acres out of a 100 acre block are hit, the grower will collect nothing because the apples are adjusted on the average for the block. He will still have 75 percent undamaged apples and 75 percent is the highest coverage level that can be purchased. The Task Force requested that orchards divided by a road, an irrigation or drainage ditch, or some other permanent public right of way, be allowed to be insured as separate parcels as long as the grower had maintained separate information on the blocks. This would be a very valuable addition and would encourage greater grower participation.
2. **Salvaging apples after settlement.** In 2005, apple growers learned that apples salvaged after a claim has been settled and then sold as U.S. Fancy for fresh and U.S. No. 1 Processing for processing fruit would have to be reported on an amendment to the claim. The value of the salvaged apples would then be deducted from the indemnity payment. This represents a change from previous years when growers were allowed to keep and sell any apples they salvaged at the most profitable grade.

Salvaging apples requires additional work to sort through and grade the apples for each end-use. Growers have relied upon that revenue to pay for labor that was already contracted for harvest and to help compensate for the difference between the insurance payment and the normal revenue from a crop. The maximum amount a grower can insure is 75 percent of his crop, so insurance seldom makes a grower financially whole, and salvaging some of the apples may reduce his losses. Crop insurance never fully compensates growers for losses, but this policy implies that it does. We feel growers should be allowed to salvage what they can from damaged orchards to maximize their revenue without reducing the indemnity payment.

3. **Prices Paid for Damaged Processing Apples.** In 2003, the USApple Risk Management Task Force requested that the indemnity price for processing apples be moved up from the cider grade

price to the U.S. No. 1 Processing grade price. The U.S. No. 1 Processing price reflects the price paid for higher quality apples, which go into canned and frozen products such as applesauce, pie filling and apple slices. Many apple growers grow their apples for processing and sell them at the U.S. No. 1 processing grade. This would put the price in line with the base grade of the new policy for which growers are paying a higher premium.

The price of cider grade apples has dropped considerably in the last several years and is now below the cost of production. However, according to the new policy procedures, RMA pays claims on processing grade apples at prices that are lower than market prices for U.S. No. 1 Processing grade apples.

RMA uses a composite price which includes both U.S. No. 1 Processing and cider apple prices. Cider apple prices are approximately 50 percent below the No. 1 Processing price and their inclusion brings down the average price for processing apples.

- 4. Extra Fancy Grade Option.** In 2004, the apple industry asked RMA to establish an option to purchase coverage for U.S. Extra Fancy grade apples. RMA indicated at that time that they were unable to establish that option because they had no pricing data on Extra Fancy Grade apples for actuarial analysis. RMA promised the apple industry it would collect that data to establish that option. This option continues to be a high priority for the industry and we urge RMA to establish it at the earliest possible opportunity.
- 5. Sales Closing Date.** The apple industry also asked RMA to extend the deadline for signing up for crop insurance to a more reasonable date after harvest. The current closing date of November 20 occurs during harvest in most parts of the country and forces growers to make a major financial decision without adequate time to select an appropriate policy for their needs.

These are some of the major changes we would like to see in the apple policy that would make it more valuable to growers and encourage more participation. We urge your support in encouraging RMA to adopt these changes. We do appreciate the willingness of RMA to work on policy improvements and regret that we have not been able to make satisfactory progress in these areas.

I would again like to express my appreciation for this opportunity to address the Subcommittee. I would be glad to answer any questions that you have. I would also like to state that I am available at any time to provide additional information on the apple crop insurance program to any Subcommittee members and other interested government officials. The Federal Crop Insurance Program is a very valuable tool in the production of apples and we are committed to its constant improvement.

Thank you